

## Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05

SS-15 STR-07 ITC-01 ICA-11 SP-02 SOE-02 OMB-01

DOE-15 TRSY-02 HA-05 /131 W

-----087798 122256Z /61

R 122118Z MAY 78

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 0197

INFO USMISSION GENEVA

AMEMBASSY BUENOS AIRES

AMEMBASSY BRASILIA

AMEMBASSY CARACAS

AMCONSUL SAO PAULO

AMCONSUL RIO DE JANEIRO

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PASS STR ELECTRONICALLY

GENEVA FOR MTN

EO 11652: N/A

TAGS: ETRD, MTN, BR

SUBJECT: U.S./BRAZIL SUB-GROUP ON TRADE (NOON SESSION,  
MAY 9): BILATERAL ISSUES RAISED BY GOB - REVISED AND  
FINAL VERSION

1. SUMMARY. MAIN PREOCCUPATION OF BRAZIL WAS TO  
JUSTIFY CONTINUED BALANCE OF PAYMENTS RESTRICTIONS BY  
INDICATING NECESSITY TO CONTRACT ITS EXTERNAL DEBT  
BEFORE UNDERTAKING THE LIBERALIZATION OF IMPORTS AND BY  
POINTING TO LIBERALIZATION WHICH HAS OCCURRED SINCE THEY  
WERE ORIGINALLY IMPLEMENTED AFTER THE OIL CRISIS. THE  
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BRAZILIAN SIDE EXPRESSED ITS CONCERN OVER U.S. SALES  
OF STOCKPILED STRATEGIC MATERIALS (CASTOR OIL, QUARTZ  
CRYSTAL), OVER THE STEEL TRIGGER PRICE MECHANISM AND  
OVER THE GENERALIZED SYSTEM OF PREFERENCES.  
END SUMMARY.

2. BALANCE OF PAYMENTS: DEZOLT (CENTRAL BANK) SAID

THAT BRAZIL HAD MADE SIGNIFICANT IMPROVEMENTS IN ITS BOP SITUATION, ATTAINING A \$200 MILLION TRADE SURPLUS IN 1977, AS A RESULT OF CONTAINING IMPORTS AND EXPANDING EXPORTS. IMPORTS HAVE REMAINED AT THE 1974 LEVEL OF ABOUT \$12 BILLION. BRAZIL HAD TO TAKE RESTRICTIVE MEASURES AS A RESPONSE TO THE OIL CRISIS, BUT HAS TAKEN NO NEW ONES SINCE 1975 AND IN 1977 LIBERALIZED SOME OF THESE MEASURES. FROM 1974 TO 1977 BRAZIL BORROWED \$21 BILLION IN FOREIGN CURRENCY LOANS, COMPARED TO \$9 BILLION FROM 1969 TO 1973. THE EXTERNAL DEBT HAS THEREFORE INCREASED CONSIDERABLY. BRAZIL IS CONCERNED WITH MAINTAINING ITS EXTERNAL DEBT AT A LEVEL BEARABLE BY THE BRAZILIAN ECONOMY AND THEREFORE CANNOT MOVE TO LIBERALIZE ITS RESTRICTIONS AS QUICKLY AS ITS TRADING PARTNERS WOULD LIKE. GOB NEEDS TO CONTRACT ITS EXTERNAL DEBT BEFORE UNDERTAKING LIBERALIZATION OF IMPORTS. DEZOLT AGREED TO PROVIDE THE USDEL WITH A COPY OF BRAZIL'S SUBMISSION TO THE GATT BOP COMMITTEE WHICH HE SAID GAVE DETAILS ON THE BRAZILIAN ECONOMIC POLICIES. (PAPER RECEIVED FROM BARTEL ROSA BEING HAND CARRIED TO WASHINGTON BY N. MORGAN, DOC)

3. AFTER EXPRESSING APPRECIATION FOR THE OFFER OF THE DOCUMENT AND FOR THE REVIEW OF THE BOP PICTURE, USDEL (MONTGOMERY) SAID THAT THE CONTINUED RESTRICTIVENESS OF THE BRAZILIAN IMPORT REGIME HAS CAUSED MANY COMPLAINTS LIMITED OFFICIAL USE

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FROM U.S. INDUSTRY AND LABOR. THE MEASURE OF PRINCIPAL CONCERN TO U.S. EXPORTERS IS THE SUSPENSION OF THE ISSUANCE OF IMPORT LICENSES, A MEASURE HARD TO DISTINGUISH FROM AN EMBARGO. EVEN SURCHARGES AND PRIOR DEPOSITS, STILL ONEROUS, ARE MUCH EASIER TO DEAL WITH.

4. FOR THE BRAZILIANS, BARTHEL ROSA (BRAZDEL GENEVA) SAID THE GOB IS AWARE THAT THE SUSPENSION OF IMPORT LICENSES HAS BEEN AN OBJECT OF SOME CONCERN TO BRAZIL'S TRADING PARTNERS. BRAZIL HAS BEEN SYSTEMATICALLY REDUCING THIS MEASURE, HOWEVER. WHEREAS IT FORMERLY AFFECTED \$580 MILLION IN IMPORTS FROM U.S., IN 1977 IT AFFECTS LESS THAN \$300 MILLION. HE EXPRESSED THE HOPE THAT THE U.S. SIDE WOULD TAKE THIS REDUCTION INTO ACCOUNT WHEN FACED WITH THE COMPLAINTS OF U.S. EXPORTERS. ALTHOUGH GOB WOULD AGREE TO BOP CONSULTATION IN GENEVA, HE SAID THAT THE BRAZILIAN BOP DIFFICULTIES HAVE NOT CHANGED SO DRAMATICALLY AS TO WARRANT ANOTHER ROUND OF CONSULTATIONS. BRAZILIAN OFFICIALS WILL BE WILLING TO ANSWER QUESTIONS IN BILATERAL CONSULTATIONS WHICH THE U.S. MIGHT HAVE AFTER STUDYING THE DOCUMENT, AND THEY HOPED IT WOULD NOT BE NECESSARY TO SEND A LARGE

BRAZILIAN DELEGATION TO GENEVA.

5. LANDE STATED THAT HE WOULD REFER THE QUESTION ON THE ADVISABILITY OF THE FULL BOP CONSULTATIONS RAISED BY BARTHEL-ROSA TO WASHINGTON. LANDE SAID THAT THE U.S. EXPECTATION FOR THIS AGENDA ITEM WAS TO LEARN WHEN BRAZIL INTENDED TO REMOVE THE DUTY SURCHARGES, THE PRIOR DEPOSITS AND THE IMPORT LICENSE SUSPENSIONS. THE U.S. IS CONCERNED THAT BRAZIL IS NOT TALKING ABOUT TERMINATING THESE RESTRICTIONS BUT RATHER ABOUT CONTINUING THEM, PERHAPS IN REDUCED FORM, BUT STILL CONTINUING THEM. BRAZIL'S BOP SITUATION IS IMPROVING, THE U.S. HAS A VERY LARGE DEFICIT, AND BRAZIL'S OVERALL AND BILATERAL TRADE

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R 122118Z MAY 78  
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WITH THE U.S. IS ABOUT IN EQUILIBRIUM. IT WILL, THEREFORE, BE VERY HARD TO EXPLAIN BRAZIL'S CONTINUED USE OF BOP MEASURES. BRAZIL'S NEW JUSTIFICATION FOR MAINTAINING IMPORT RESTRICTIONS TO SERVICE ITS EXTERNAL DEBT MAY WELL LEAD TO THE QUESTION OF WHAT BRAZIL'S EXCUSE WILL BE NEXT TIME.

6. DEZOLT SAID THAT CONTAINMENT OF IMPORTS IS THE ONLY WAY FOR BRAZIL TO SOLVE ITS BOP PROBLEMS, BECAUSE IT

CANNOT CONTROL ITS TOTAL EXPORTS. BRAZIL HAS IMPROVED ITS TRADE ACCOUNT WITH OECD COUNTRIES BUT STILL HAS A DEFICIT WITH OPEC COUNTRIES. PROENCA ROSA SAID THAT IF BRAZIL LIBERALIZED ITS IMPORTS, IT WOULD HAVE TO GO IMMEDIATELY TO THE INTERNATIONAL MONETARY FUND AND EXPLAIN SUCH THINGS AS ITS EXTERNAL DEBT AND INFLATION RATE. HE REFERRED TO A STATEMENT BY FINANCE MINISTER SIMONSEN

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REPORTED IN THE PRESS ON MAY 9 THAT BRAZIL'S EXTERNAL DEBT WOULD INCREASE TO \$35 BILLION BY YEAR END. HE SAID THAT THE JUSTIFICATION FOR MAINTAINING A POLICY COULD BE DIFFERENT FROM THAT IN CREATING IT.

7. U.S. DISPOSALS OF STOCKPILED MATERIALS: PROENCA ROSA SAID THAT BRAZIL HAS BEEN CONCERNED FOR A NUMBER OF YEARS OVER DISPOSALS OF STRATEGIC MATERIALS IN STOCKPILES OF THE GENERAL SERVICES ADMINISTRATION. TWO RECENT CASES ARE MATTERS OF SERIOUS CONCERN TO BRAZIL:

(A) CASTOR OIL: BRAZIL AS THE MAJOR WORLD EXPORTER IS CONCERNED ABOUT THE EFFECT ON WORLD PRICES AND ON BRAZILIAN EXPORTS IF THE U.S. CONGRESS AUTHORIZES DISPOSAL OF 600 TONS OF CASTOR OIL.

(B) QUARTZ CRYSTAL: BRAZIL, THE MAJOR WORLD PRODUCER AND EXPORTER, IS CONCERNED THAT CONGRESS HAS ALREADY AUTHORIZED DISPOSAL OF AROUND 1000 TONS. THIS QUANTITY REPRESENTS HALF OF BRAZIL'S EXPORTS IN 1975 AND 1976.

7. THE U.S. SIDE (LANDE) ASKED WHETHER THE BRAZILIANS HAD RAISED THE ISSUE OF U.S. DISPOSALS OF QUARTZ CRYSTAL AND CASTOR OIL WITH THE U.S. AND WAS TOLD BY PROENCA ROSA "NOT RECENTLY." PROENCA ROSA AGREED THAT THIS WOULD BE THE FIRST OFFICIAL FORMAL REQUEST ON THIS ISSUE AND THE EMBASSY WOULD GET BACK IN TOUCH WITH THE BRAZILIANS. AS BACKGROUND ON THE CASTOR OIL DISPOSAL, LANDE SAID THE U.S. EXPECTED TO DISPOSE OF SMALLER QUANTITIES THAN IT HAD REQUESTED CONGRESS TO AUTHORIZE AND MIGHT SPACE OUT ITS DISPOSAL OVER SEVERAL YEARS. THE STRATEGIC AND CRITICAL MATERIAL STOCKPILING ACT CALLED FOR THE AVOIDANCE OF

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DISRUPTION OF THE USUAL MARKETS. THE REQUEST FOR DISPOSAL IS 1,250,000 LBS. AS FOR QUARTZ CRYSTAL, THE U.S.

HAD NOT PREVIOUSLY BEEN AWARE OF BRAZILIAN CONCERNS AND WOULD SEEK GUIDANCE FROM WASHINGTON.

8. STEEL: HUGUENEY SAID BRAZIL IS TRYING TO DEVELOP A FAIRLY LARGE STEEL SECTOR AT A TIME WHEN ALL MAJOR IMPORTERS HAVE INTRODUCED RESTRICTIONS ON STEEL PRODUCTS. BRAZIL MUST EXPORT SOME AMOUNT OF STEEL PRODUCTS TO COMPLETE ITS PLANS FOR DEVELOPMENT OF A STEEL INDUSTRY. IT THEREFORE VIEWS WITH ALARM ANY INCREASE IN PROTECTIONISM. HE ASKED FOR AN EXPLANATION OF U.S. STEEL IMPORT POLICY WITH PARTICULAR REFERENCE TO THE TRIGGER PRICE MECHANISM (TPM).

9. LANDE SAID THE TPM IS NOT DESIGNED TO BE AN IMPORT BARRIER BUT RATHER TO PROVIDE STABILITY IN THE MARKET. THERE ARE NO QUANTITATIVE RESTRICTIONS ON CARBON STEEL. THE TPM IDENTIFIES PRICES BELOW FAIR VALUE WHICH MIGHT CONSTITUTE DUMPING. IT IS AN AGGREGATE OF A BASE PRICE FOR A STEEL MILL PRODUCT BASED ON THE JAPANESE COST OF PRODUCTION, PLUS SHIPPING, INSURANCE, AND OTHER COSTS. SALES BELOW THE TRIGGER PRICE CAN CONTINUE IF THE EXPORTING COUNTRY CAN SHOW LOWER COSTS OF PRODUCTION. THE TPM IS COMPATIBLE WITH THE GATT ANTI-DUMPING CODE.

10. GSP REVIEW SYSTEM: HUGUENEY SAID THAT BRAZIL HAD ASKED FOR INCLUSION INTO THE GSP OF ABOUT 50 PRODUCTS. U.S. REGULATIONS WERE CHANGED JUST AS BRAZIL MADE ITS REQUESTS AND BRAZIL BELIEVES THESE NEW REGULATIONS MAY HAVE BEEN A WAY TO PREVENT FURTHER INCLUSION. ALL BRAZILIAN REQUESTS HAVE BEEN TURNED DOWN ON BASIS THAT BRAZIL DID NOT PROVIDE SUFFICIENT INFORMATION.

11. LANDE SAID THAT IN 1977 BRAZIL EXPORTED TO THE U.S. PRODUCTS VALUED AT \$209 MILLION WHICH BENEFITED FROM LIMITED OFFICIAL USE

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TREATMENT UNDER THE GSP. THE FIGURE ROSE TO \$343 MILLION,

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INCLUDING NEW PRODUCTS. WHEN THE GSP WAS NEGOTIATED, U.S.  
DID ITS MAXIMUM EFFORT IN ELIMINATING DUTIES ON 2500  
PRODUCTS FROM MOST DEVELOPING COUNTRIES. ALTHOUGH THE  
U.S. DID NOT HOLD OUT HOPE FOR SIGNIFICANT IMPROVEMENT IN  
THE GSP, IT DID PROVIDE PETITION PROCEDURES WHEREBY  
AFFECTED U.S. INDUSTRY COULD ASK FOR ELIMINATION OF A  
CATEGORY OR WHEREBY ANOTHER COUNTRY COULD ASK FOR  
INCLUSION OF ANOTHER CATEGORY. THE U.S. TRIES TO MAKE  
CHANGES ONCE EACH YEAR. A NEW REVIEW BEGINS IN JUNE.  
THE INFORMATION REQUIRED SHOULD BE AVAILABLE TO THE  
PETITIONERS. IF IT IS NOT, THE PETITIONER SHOULD  
EXPLAIN WHY NOT AND AN EXCEPTION MIGHT BE MADE. OF THE  
50 PRODUCTS REQUESTED BY BRAZIL, THE U.S. HAD FOUND THREE  
INELIGIBLE, I.E. WOODSTICKS, RESISTORS AND ELECTRONIC  
TUBES. OTHERS STILL UNDER CONSIDERATION ARE BICYCLE  
FRAMES AND PARTS.  
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12. IN RESPONSE TO A BRAZILIAN QUERY, LANDE SAID THE  
USG FEELS STRONGLY THAT THE GSP IS NOT APPROPRIATE TO  
NEGOTIATE IN THE MTN. THE GSP IS A NON-RECIPROCAL GRANT  
TO LDCS. BY BRINGING UP SENSITIVE ITEMS FOR INCLUSION IN  
THE GSP, BRAZILIANS IRRITATE CERTAIN U.S. SECTORS. IF  
BRAZIL DOES PAY FOR GSP CONCESSIONS FROM ANOTHER DEVELOPED  
COUNTRY THERE WILL BE STRONG PRESSURE TO SCRAP THE U.S.  
NON-RECIPROCAL SCHEME. THOMPSON

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## Message Attributes

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**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TRADE LIBERALIZATION, MEETING DELEGATIONS, TRADE CONCESSIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 12 may 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780203-0035  
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**Handling Restrictions:** n/a  
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**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
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**Secure:** OPEN  
**Status:** NATIVE  
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**Type:** TE  
**vdkgvkey:** odbc://SAS/SAS.dbo.SAS\_Docs/2cd716a0-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014